**Minute: Audit and Risk Committee**

**13th May 2024 5.00 pm –Via Zoom**

**Present:** Yvonne Finlayson, Catherine Pollock, Kellyann McGraith and Alastair Rennie.

**In Attendance:** Ann Baxter, Iain Clark, Ronnie Gilmour, Diane McGill, Elaine McKechnie, Christopher Moore, Penny Neish, Louisa Yuill (Audit Scotland), Jack Kerr (Audit Scotland), and Stephen Pringle (Wylie & Bisset)

**1. Chair’s welcome:** Yvonne Finlayson welcomed all to this meetingand thanked Members for their attendance.

**2. Apologies for Absence:** There were apologies no apologies.

**3. Declarations of Interest:** There were no declarations of interest.

**4. Minute of meeting:** The minute of the 19th February 2024 was approved.

**5. Matters Arising from Minutes:**

**5.1** Yvonne Finlayson asked about the follow up actions which are now listed from each meeting. The Board Secretary confirmed that this had been updated to include matters arising from the last meeting. At the last meeting Yvonne Finlayson raised the issue of how the risks of the financial position were being reflected in the risk register. The external financial environment was driving the financial problems being experienced by NCL and the college sector as a whole and a major part of this is staff costs which due to national bargaining are out with the colleges’ control. It was confirmed that the risk register had been updated to separate out financial external risk. Catherine Pollock would be involved in the tender for internal audit services.

**6. SLC ARC Update:**

Elaine McKechnie presented her paper (Committee in this section of the minute refers to the SLC ARC) which covered the following areas:

**6.1 AUDIT SCOTLAND: ANNUAL AUDIT PLAN 2024/25:** Audit Scotland presented their Annual Audit Plan for the year ended 31st July 2024. Focus will be placed on the significant risks of material misstatement to the Annual Report and the Financial Statements, which encompass management override of controls, for which accounting system inputs and controls are reviewed and tested as part of the audit assignment; and revaluation of fixed assets, owing to the subjectivity in the valuation of land and buildings and for which the Audit team will assess the adequacy of disclosures made. Other areas of focus for the audit relate to the significant pension balance as calculated by actuaries annually, together with the payroll system, which is being transitioned to a new system this year and will likely be relied upon by the College to produce the financial statements for 23/24. The ongoing issue with pension employee contribution overpayments from 2015 will also form part of a wider scope risk for 23/24.

**6.2 HENDERSON LOGGIE: INTERNAL AUDIT** **UPDATE:** Henderson Loggie provided an update of the progress on internal audit assignments; Governance internal audit as commenced in Feb 2024 is still in progress with the support of the interim Governance Professional. Henderson Loggie were in a position to give the results of the Publicity and Communications Audit that was conducted w/c 15th April 2024, noting two key recommendations:

* Comprehensive social media guidelines should be developed in order to support staff who have direct access to SLC social media accounts; and to guide staff in their use of personal social media in relation to information which pertains to their role within the College. This action is targeted for completion by June 2024.
* Crisis communication training should be delivered for the Principalship and the Marketing and Communications Manager. This action’s targeted completion date is the end of July 2024 completion date.

Henderson Loggie also gave the results of the Purchasing/Creditors Audit that was conducted w/c 15th April 2024, noting two key recommendations:

* further delegation of authority to allow authorisation of low value PO’s by Vice Principals and Associate Principals
* formalising the process for recording changes to supplier’s standing information:

**6.3 ROLLING AUDIT RECOMMENDATIONS (RAR) MONITOR:** The SLC ARC was asked to consider the recent updates to the monitor. The College has made further progress in addressing the recommendations made in previous audit assignments however many of the recently added recommendations are still a work in progress at this point in the academic year. There are now 22 recommendations on the monitor, covering Cyber Security, Health & Safety, Risk Management Staff Recruitment & Retention, Budgetary Control, Student Support Funds and Student Activity (Credits). 5 recommendations from January 2024 in respect of cyber security were fully closed off in the last quarter.

**6.4 PENSION UPDATE:** The SLC Committee was asked to note recent updates and the work undertaken on the plan for correction of pension contribution errors for part time staff as advised at the last meeting of the Committee in February 2024.The Project is utilising a “project sprint” methodology to minimise lost time. This also minimises capacity impact on the HR team. The HR Team are currently front-loading the project with data, utilising some overtime from within the budget. The project is anticipated to end by the end of February 2025, with employees getting their results on a monthly basis, starting around June 2024.

6.5 CYBER SECURITY: The SLC Committee were asked to note a recent cyber incident involving a member of staff’s email account. The IT team were able to identify, resolve and contain the attack within 15min with clear understanding of the issue that could affect more users. Those users subsequently did not get attacked because of the response of the IT team. Monitoring of the incident proved there had been no data loss from the college and that the incident response process is working effectively. As a result, there was no further change to risk ratings on the College risk register.

6.6 RISK MANAGEMENT: Of the fifteen risks identified previously, the SLC Committee noted that risk assessments have stayed primarily constant.

* One reduced risk rating in respect of credit target achievement was incorporated given that the College has achieved its credit target.
* One increased risk rating was incorporated in respect of capital funding requirements. The risk register in February 2024 previously reporting an anticipated 3% increase in capital funding which has now materialised as a 2.2% decrease.
* In addition, the SLC Committee noted the ongoing deliberations around investments to decarbonise the estate, with a potential £2.5m of funding available from the Scottish Government for 23/24. The College would prefer to target a ‘fabric first’ approach to estate maintenance and with unknown centralised funding for 25/26, heavy investment in equipment to achieve a net zero goal feels risky given the huge initial financial outlay that would be involved in implementing, for example, a heat pump solution.
* The SLC Committee were also invited to review the new risk ‘cause’ on the register through which the College can better describe risks that are internally or externally influenced. This was a request from the Board at the last meeting in February 2024.

6.7 NATIONAL FRAUD INITIATIVES: As a publicly funded body, the Committee were advised that the College is obligated to participate in the UK Government’s matching exercise known as the National Fraud Initiative (NFI) every 2 years. An upload of relevant information on personnel and supplier transactions was initially made on the NFI website by the College in respect of the 22/23 exercise. There were 306 matches identified as a result of the data upload and on review, none were found to indicate any potential fraud issue. The College ensures through the Data Protection Officer that information used in the exercise is compliant with regulations and the College reviews the NFI security policy as part of the exercise completion.

6.8 VAT ON UTILITIES – AEZTS REVIEW JANUARY 2024: The Committee were provided with an overview of a potential input VAT underpayment that has been identified in early 2024. The paper presented set out an intended plan of action to remedy the error, including recommendations and controls to reduce the likelihood of a similar error in the future. A potential underpayment of over £104k has been identified and this will be remedied with HMRC as a matter of urgency. The College seeks to enhance controls around its VAT reporting with the implementation of a training manual, process notes, segregation of duties and regular dialogues with Azets to ensure full compliance going forward.

6.9 GOVERNANCE - THE ROLLING REVIEW: SLC Committee Members noted that the report set out a draft of the Rolling Governance Review for information and comment. It focuses on the principles of good governance with subheadings of importance relating to each principle. The Committee were reminded that the Rolling Review is a dynamic document and is therefore always a work in progress. SLC continues to have a robust system for reviewing and updating Policies but Part C of the Code of Good Governance requires the Board to ensure that there are appropriate and effective systems of operational control and that, for audit purposes this oversight needs to be visible. The Committee was asked to note and approve the proposed addition to the Rolling Review to incorporate a summary of key policies with dates for review and suggest other matters which may also be incorporated.

**7. Technical Bulletin Audit Scotland Jan – March 2024:**

**7.1** Iain Clark presented this paper to the Lanarkshire Board ARC as follows:

* There is no specific section in this bulletin for the college sector.
* P 9 section 21 refers to an independent valuation of pension schemes in Local Government.
* P 15I&Q has published TGN 2024/2(CG) to provide auditors with model forms of Independent Auditor's Reports (IAR) which should be used for the 2023/24 annual accounts of central government bodies.

**8. Audit Scotland Audit Plan 2023/24**

**8.1 Louisa Yuill highlighted the following un the Annual Audit Plan:**

* Paragraphs 3-8 the auditors and the colleges responsibilities
* P 5 Exhibit 1 Materiality Levels for the college and its group.
* P 6 2023/24 Significant risks of material misstatement to the financial statements
* P 8 For both fraud over income and expenditure, the auditors have rebutted the presumption that a risk of material misstatement due to fraud exists and the reasons for this are set out.
* P9 para 23 Pension balance**:** There are significant actuarial assumptions used with a high degree of complexity in calculating this balance. We have identified this is an area of risk due to the level of complexity, estimation uncertainty and extent of assumptions used in this area.
* P 10 para 30 In addition to the appointed auditor’s opinion of the financial statements, the Auditor General for Scotland prescribes that the appointed auditor should provide opinions as to whether the performance report, governance statement, and the audited part of the remuneration and staff report, have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.
* P 12 Exhibit 3 wider scope risks

**8.2** The audit will start earlier this yearand the auditors have now met with key staff and a timetable has been drawn up to deliver the accounts for submission in December 2024.

**9. Regional Risk Register**

**9.1 Regional Risk Register**

**Ronnie Gilmour updated the committee as follows:**

* **Risk Movements:** There is no change to 18 risks. Risk H - "Failure to deliver SFC Credit targets" moves DOWN to a likelihood score of 2 (from 3) and a residual score of 1 (from 2) due to the fact that the credit target has been met for AY23/24, subject to audit. Risk L - "Failure to maintain and improve students’ retention and achievement has also been reduced to reflect the improvements made to KPIs in AY22/23. All other risks remain the same as per January 2024.
* **Two risks are above** the committee's threshold level and therefore are subject to Control Action Planning. These are a) Financial: "A" Unable to maintain operating budget while delivering high quality, relevant and responsive education - very high (Above Amber [high] threshold **b) Financial**: "D" Inability to secure appropriate levels of funding to respond to operational and strategic priorities - very high (Above Amber [high] threshold)
* **Under Observation**: (a) Global Supply Chain Issues have improved over the past few months (including ICT equipment and components) but we will keep monitoring this risk. We are continuously monitoring of the costs of gas and electricity. We continue to work on our Carbon management and sustainability plan. b) For Risk S - while our ongoing costs are very much and will continue to be, legal ones, these costs equate to around 30% of our overall expenditure to date on the cladding system.
* **Regional Business Plan Register**: There are 10 risks logged and there are no risk movements although there have been amendments.

**9.2 SLC Risk Register:** This was covered in the report to the Committee atparagraph 6.6 above.

**9.**3 **Going Concern Principles and Guidance**:

**9.3.1** Iain Clark presented the Audit Scotland “Going Concern in the Public Sector” Covid 19 paper. This is the only paper published on this topic so far by Audit Scotland and is a guide for auditors. It highlights the difference in approach between the private and the public sector in relation to going concern. Paragraph 21 sets out that **t**he concept of going concern is applied in a different way in the public sector. Public bodies exist to deliver essential public services. It is reasonable to presume that those services will continue to be delivered using the same assets unless there is evidence to the contrary. This presumption continues to hold even where responsibility for delivery is transferred by the government to another body or bodies. Paragraph 22 states that, **i**n determining the appropriateness of the going concern basis of accounting, the continued use of the assets to deliver services is more important than the continued existence of a particular public body.

**9.3.2** Paragraphs 36 – 44 cover the issue of **Financial Sustainability** as follows:

* Financial sustainability as defined in the Code of Audit Practice is concerned with whether the public body has effective and appropriate arrangements in place to deliver its services in the medium and long term.
* If a business in the private sector operates in a manner that is not financially sustainable, eventually it will be forced to cease to operate; it will stop being a going concern. The concepts are therefore inextricably linked.
* Auditors in the private sector therefore generally do not distinguish financial sustainability from going concern. They report on going concern (encompassing financial sustainability) in the Independent Auditor’s Report.
* The relationship between the concepts of going concern and financial sustainability is different in the public sector. This is a product of the continuity of the delivery of public services compared with entities in the private sector that may have to stop trading and be liquidated.
* In the public sector, the government can intervene to increase funding or adopt a different delivery model. The services would only cease to be delivered if the government changed policy and decided to stop their delivery. There is always a reasonable lead time for such an event.
* The financial sustainability of a body and the services it provides is nevertheless important in the public sector. It is likely to be of greater public interest than the application of the going concern basis of accounting.
* Even in more routine times, cost pressures and reduced funding in real terms can cause financial stress and create risks to a public body’s financial sustainability. This has been exacerbated by the impact of Covid-19. However, this has no direct impact on the basis of accounting.
* The Code of Audit Practice requires auditors to conclude on the effectiveness and appropriateness of a body’s arrangements for financial sustainability as part of the wider scope of public audit.
* Auditors report their conclusion in their Annual Audit Report. Even where there are serious weaknesses in a body’s arrangements and remedial action is required, it does not impact on the going concern basis of accounting. Auditors do not report matters concerned with financial sustainability in the Independent Auditor’s Report.

**9.3.3**

***Action: Louisa Yuill undertook to check with Audit Scotland if there had been a sector wide national discussion on this subject given the current position in relation to college sector finances.***

**10. Horizon Scanning – Progress NCL Forward Plan**

**10.1** Christopher Moore updated the Committee as follows:

* The SFC had on the 9th May confirmed that they had accepted the mitigations for the credit targets being missed that had been sent to them on the 9th February 2024 and there would not be a claw-back. This is a significant on off improvement - £995,000 - to the overall position for this year and very welcome news.
* NCL had finalized the agreement to set up an undergraduate school with UWS for a target number of 145 students – 120 had already been recruited. This represents a diversification of funding income of c. £1 million and a significant sum of additional funding. Furthermore, the number of students could go up to 200, depending on recruitment, representing a further £500k. The momentum was also growing with a meeting arranged with Queen Margaret University to look at the Performing Arts courses.

**10.2** Yvonne Finnie commented on this being a great result and commended the staff involved in these discussions.

**11. Internal Audit Reports: Stephen Pringle presented the internal audit papers as follows:**

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| **11.1 Commercial and External Partnership Costing Models:** The purpose of this assignment was to provide  assurance over the suitability of the Commercial and External Partnership Costing Models (Closed Costing).  This review considered the controls in place surrounding the budgeting, monitoring, and reporting of  commercial & external partnership income. Following our review, we can provide a substantial level of  assurance surrounding the suitability of the commercial and external partnership models. The auditors have  identified 2 medium - grade recommendations and 1 low grade recommendation for improvement. |

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| **11.2 Curriculum Delivery Plan:** The auditorsundertook a review of the suitability of the Curriculum Planning  arrangements in place within the College. They reviewed the process from determining which courses to  be run, the delivery methods, the allocation of staffing, through to the approval of the plan. They also  reviewed the processes surrounding timetabling and the methods adopted to assess the quality of the  curriculum offered. Following our review, the auditors are able to provide a substantial level of assurance  over the controls surrounding the College`s Curriculum Delivery Planning. There are several areas of good  practice to note in the Executive Summary. The auditors have raised 1 recommendation for improvement. |

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| **11.3 HR Payroll:** The auditorsreviewed the HR/Payroll processes at the College, with focus being on the  processes of budgeting for staffing at the College. They reviewed the process for staff appointments  and departures to ensure that it is being appropriately followed. They reviewed the processes in place  relating to absence management and how the College monitor and control temporary staff members  and any overtime. Finally, the auditors reviewed to ensure that appropriate deductions and payments  are being made with reference to HMRC and Pension Contributions. Following their review, they can  provide a strong level of assurance that the College has appropriate controls in place in relation to the  human resources and payroll processes. They can also provide a strong level of assurance that the controls  are operating as expected. However, they have raised 2 low grade recommendation for improvement and 1  observation. |

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| **11.4 Cyber Security:** The auditorsundertook a review of the cyber security arrangements in place to ensure  that there are appropriate controls in place to mitigate the loss of business-critical information due to a  cyber-attack or failure of the key systems/suppliers. They tested these arrangements against the National  Cyber Security Centre`s (NCSC) 10 steps to Cyber Security guidance. Following the review, they can provide  a substantial level of assurance over the College’s cyber security and their associated policies, procedures,  and controls. This is highlighted as they have raised several good practice points. However, they have made  3 medium grade and 2 low grade recommendations for improvement. |

**11.5 Follow up Review –** The Follow Up Review is on-going.

**12. Approval of Publication of Committee Papers:** The Committeeapproved the publication of the agenda, the approved minute for the 19th February 2024, the technical bulletin and the Audit Scotland Audit Plan.

**13. AOB:** There was no other business.

**14. Date of Next Meeting:** The date for the next scheduled meeting is **Monday 2nd September 2024**.

**15. Meeting AS and non – executive Board Members.**

**15.1** There was a meeting of the non-executive ARC members with Louisa Yuill and Jack Kerr. The following key points were discussed:

* The audit would start earlier this year to alleviate some of the pressure experienced last year
* The auditors had already met with key members of staff
* There are no problems of engagement with or access to the Finance Team
* There is a timetable for the audit though there are some concerns about that being potentially impacted on because the Finance Team is a small team.
* There are still legacy policies in place though a recognition that some are subject to discussion with the trade unions. There needs to be a schedule for review of the policies.

***Action: The Board Secretary is to follow up with Elaine Turkington on getting a schedule of policies and review dates.***

**Note to the Minute re Section 9.3 above – Going Concern**

**Email dated 17th May from Louisa Yule (LY) Audit Scotland to Iain Clark and Diane McGill**

Following on from the ARC meeting on Monday, LY followed up on the going concern question raised.

There were no conversations with OSCR on the preparation of the cross-sector going concern guidance.

LY did speak with Professional Support colleagues who did direct her to some guidance around principles for the college/board:

* Being a going concern means being able to use the going concern basis of accounting

* For public bodies, the continued delivery of the service is relevant to the ability to use the going concern basis of accounting; but the continued existence of the public body itself is not relevant (provided the service will continue to be delivered by another public body)

Paragraph 3.27 of the Accounting for Education and Higher Education SORP notes that colleges normally prepare their financial statements using the going concern basis of accounting. However, it requires the governing body to make its own assessment of the college’s ability to continue to do so. Extract from SORP noted below:

*"Institutions normally prepare their accounts on the basis of being a going concern. The governing body must make its own assessment of the institution’s ability to continue as a going concern to assure itself of the validity of this assumption when preparing the accounts. In making this assessment, an institution’s governing body must take into account all available information about the future for at least, but not limited to, 12 months from the date on which the accounts are approved".*

 Audit Scotland's guidance to auditors explains that the FReM’s interpretation of going concern for non-trading entities applies to colleges, i.e. the anticipated continuation of the provision of further education is normally sufficient evidence. The college’s financial position is of course relevant to its own financial sustainability but not to the financial sustainability of the delivery of the further education service. It’s not therefore relevant to the appropriateness of the going concern basis of accounting as even if the Scottish Government wound up that particular college, the assets of that college would simply transfer at their carrying amount to another college or colleges.  Extract of guidance noted below, with the two most relevant paragraphs in bold.

*Going concern basis of accounting is not appropriate*

*Under the going concern basis of accounting, the financial statements are prepared on the assumption that the services delivered by the body will continue for the foreseeable future. Assets and liabilities are recorded on the basis that the body will be able to realise its assets and discharge its liabilities in the normal course of business. This contrasts with a ‘break up’ basis which is required if a body’s operations cease suddenly and consequently the recoverable values of its assets may be significantly less than the carrying amount in the balance sheet.*

***The concept of going concern applies in the public sector but in a different way to the private sector. A key difference is that when assessing whether the going concern basis of accounting is appropriate for a public body, the anticipated continued provision of the services is more relevant to the assessment than the continued existence of the particular body itself. Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public bodies. Auditors should determine a proportionate approach based on the body’s circumstances and the financial reporting framework.***

***Section 8.2 of the FReM interprets the requirements of IAS 1 in respect of going concern and states that the anticipated continuation of the provision of the service, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern. It also clarifies that bodies with total net liabilities should prepare their financial statements on the going concern basis unless the sponsor department deems that inappropriate.***

*The assessment of whether the going concern basis of accounting is appropriate is therefore very straight-forward in the majority of cases. There is no need for any detailed cash-flow projections that are necessary for a business in the private sector.*